GATT
THE DUNKEL REPORT AND
CANADIAN AGRICULTURAL POLICIES

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ISSUE DEFINITION

The current round of GATT multilateral trade negotiations (MTN), known as the Uruguay Round, began in September 1986 and was scheduled to end in December 1990. These negotiations continued until December 1993, however, and were concluded only at the time of final signature in April 1994.

The Uruguay Round will go down in history mainly because, for the first time ever, certain fundamental issues were placed on the GATT MTN agenda, notably services, intellectual property, leading edge technology and institutional reform. While the MTNs will be remembered most for the acrimonious discussions on agricultural policy reform, we should not forget the era in which the Uruguay Round unfolded. The complexity of this round of negotiations is due in large part to the fact that the MTNs were launched at the very moment the concept of global markets was beginning to emerge. The European Community was taking shape, both economically and politically, and major upheavals and developments were taking place, such as the unification of the two Germanies and the disintegration of the Soviet Union. This made a perfect scenario for complicating the negotiations to determine trade rules for a market that has become more global than ever before.

When the Dunkel Report was released in December 1991, Canada realized that it would be difficult to get its producers to agree to the agricultural reform proposals that had been put forward. The hostile reaction to the proposals soon confirmed the federal government's fears.

BACKGROUND AND ANALYSIS

A. The Dunkel Report

On 20 December 1991, Arthur Dunkel, Director General of GATT, tabled a report containing proposals designed to serve as a basis for a final agreement on world trade. While extremely comprehensive, the Dunkel Report gave member countries only until 1 March 1992 to agree on the issue of market access, that is, on the reduction of tariff and non-tariff barriers. Countries were required to submit their initial offers which would become final by month's end. According to the timetable set by Mr. Dunkel, the Uruguay Round would come to a close with the signing of the agreement by member countries around Easter 1992.

Mr. Dunkel, a guest speaker at the world conference of the International Federation of Agricultural Producers held in Quebec City in early June 1992, acknowledged that agriculture remained the stumbling block of the discussions. He expressed some optimism, pointing out that the recent agreement on a Common Agricultural Policy for the European Community should be viewed as a step in the right direction. He repeated his wish to see the Uruguay Round come to a successful conclusion soon. In his opinion, the costs of failure would be economically devastating for many countries. He also indicated that he would not be satisfied with the agreement unless all parties to it were also satisfied.

The Dunkel proposals on agriculture focus on access to markets, export competition, internal support and sanitary and phytosanitary measures. Following is a description of what would take place in these four areas if the proposals were ratified without amendment.

1. Access to Markets

- Agricultural commodities subject to measures other than tariff duties at the border would henceforth be protected by a tariff system.
- Between 1993 and 1999, tariffs would be lowered an average of 36%; however, a minimum reduction of 15% would apply to each tariff line.

- When there are no significant imports, it would be possible to access 3% of the domestic market the first year; this level would be increased to 5% by the end of the implementation period.
- Tariff equivalents for minimum access would be calculated to the four-digit level. For example, minimum access will be calculated specifically for butter, not in terms of milk equivalent.
- It would be possible to invoke special safeguard provisions for farm commodities subject to a concession. In terms of volume, a safeguard could be applied if imports of a product during a given year exceeded a level equivalent to 125% of imports during the previous three years, or if levels reached 125% of possible minimum access, with the higher of the two figures being retained. With respect to prices, a safeguard could be invoked if the import price dipped below a level equivalent to 90% of the mean reference price for the 1986-1988 period. Below this level, different duties could be applied, depending on the gap between the import price and the reference price.

2. Export Competition

- In his report, Mr. Dunkel proposes a reduction in export subsidies. With 1986-1990 serving as the reference period, expenses tied to export subsidies would be reduced by 36%, in equal stages, between 1993 and 1999. In addition, quantity levels would be reduced by 24%.
- According to the reduction proposals, countries would have to promise not to introduce, or re-introduce, export subsidies for commodities or groups of agricultural commodities for which subsidies had not been awarded during the reference period.

3. Domestic Support

- Subsidies for programs classified as "green" by GATT, such as research and development, environmental policies and regional development, would not have to be reduced.
- However, all domestic support provided to farmers would be reduced by 20% between 1993 and 1999, with the 1986-1988 serving as the reference period for calculating the reduction in support subsidies.

- There would be no obligation to reduce support levels if these did not exceed 5% of the value of the production of a basic farm commodity. Furthermore, a reduction would not be necessary if domestic support did not exceed 5% of the value of agricultural production in the case of a sectoral Aggregate Measure of Support.
- Special criteria would allow for decoupled income support as well as for the government's financial participation in guaranteed income or income security programs. Thus, the government would support a loss of income stemming essentially from agriculture that exceeded 30% of average gross income or the equivalent of the net income of the previous three years, or the average of any three-year period in the past five years.

4. Sanitary and Phytosanitary Measures

- The Dunkel Report establishes the rights and obligations of the contracting parties.
- The report states that the contracting parties have the right to take the necessary sanitary and phytosanitary measures to protect the health and life of human beings and animals, provided these measures are based on scientific principles.
- However, sanitary and phytosanitary restrictions must not be applied in such a way that they constitute a veiled restriction on international trade.

B. Supply Management: Canada's Gordian Knot

During the current round of multilateral trade negotiations, Canada has more often than not found itself grappling with a dilemma that has very likely weakened its bargaining position. Canada finds itself having to defend two diametrically opposed approaches: on the one hand is supply management, an ultra protectionist policy that is based on a highly-rigid economic system and which primarily favours farmers in eastern Canada; on the other hand is an open market policy that is based on the elimination of export subsidies and the lifting of trade barriers and which increasingly appears to be the only solution to getting the agricultural economy of western Canada back on track. Not only is there an economic gap between the two approaches, there is also a political gulf that is growing ever wider as a result of the constitutional debate now gripping the country.

While defending supply management was very important to Canada at the outset of the MTNs, it was nevertheless just another trade issue. Now it is perceived as a political issue. Some analysts would even venture to say that if Canada loses supply management, it will lose Quebec. This does nothing to help the negotiation process or to improve the political or trade context.

In point of fact, the Dunkel Report could not care less for the political debate in Canada. Its proposals for supply management are merely in keeping with the broad guidelines established more than five years ago.

In April 1989, when the initial Dunkel Report aimed at resolving the impasse of the mid-review meeting in Montreal was tabled, there was no mention of anything that might clarify or strengthen Article XI. Why, then, are Canadians surprised that Mr. Dunkel has not altered his position in 1992? It is because Canada has always held out some false hopes. Instead of being surprised, it should realize that GATT has no intention of embracing supply management, at least not the kind of system so staunchly defended by Canada.

This position was confirmed by Mr. Dunkel, who categorically stated at the June conference in Quebec City that one exception just invites another, and leads to the domino effect. The costs and risks associated with exceptions are too high for all farmers for GATT to even consider including some of them in an eventual agreement.

1. Tariffication and Supply Management

The impact of the Dunkel proposals on supply management in Canada would be two-fold.

First, the protection currently afforded by import quotas would be replaced by tariff equivalents corresponding to the difference between the world and domestic prices in effect during the reference period (1986-1988). These tariff equivalents would then be reduced gradually by 36% during the implementation period (1993-1999). Minimal access to domestic markets, at a level equivalent to 3% of domestic consumption in 1993 and to 5% in 1999, would also be granted.

Table 1 lists specific tariffs and *ad valorem* equivalents for certain supply-managed commodities.

Table 1

Tariff Equivalents According to the Dunkel Proposals
Canada

Fluid	33 $/hl	83 %
Skim milk powder	187 ¢/kg	193 %
Butter	390 ¢/kg	292 %
Cheddar cheese	345 ¢/kg	242 %
Chicken	93.3 ¢/kg	74.8%
Turkey	126.1 ¢/kg	70.4%
Eggs	47.7 ¢/doz.	61.0%

Source: Department of External Affairs, Multilateral Negotiations Office, unpublished data, 1992.

a. The Impact of Tariffication

Agricultural groups that defend supply management have said that even high tariffs would make it impossible to maintain supply management systems. Without import quotas, Canadian producers would have to contend with fluctuating world prices, because of, among other things, variations in exchange rates. These fluctuations would make it virtually impossible to use the production cost calculation formulas which form the basis of supply management systems. It should be noted, however, that escape clauses, or safeguards, would allow for the imposition of tariffs on imported commodities when prices fell to 10% below the trigger price or when the volume of imports exceeded the level of 125% of imported commodities in effect during the preceding three-year period.

Even with safeguards, tariffication would force supply-managed Canadian agricultural sectors to rationalize their operations, a process that would inevitably lead to a decline in the number of producers. The Canadian Chicken Marketing Agency paints one of the gloomiest pictures of all. It estimates that between 1993 and 1999, the number of poultry producers would decline from 2,411 to 39. In other words, it is forecasting the demise of the industry.

However, those who accept this scenario forget to take into account the ability of producers to streamline their operations and to adapt to new production constraints. Of course,

producers might perhaps no longer enjoy income stability and their production costs would no longer be guaranteed. But this would be nothing new for many of them who, even under supply management, have experienced a similar situation.

For example, only the 70% of producers in the sample with the lowest production costs are included for the purpose of calculating average production costs for industrial milk. In other words, 30% of producers have production costs that are well above average. Another group comprising 20 to 30% of producers have production costs equivalent to, or even slightly below, those calculated using the formula. Consequently, only 40 to 50% of milk producers - the most efficient ones - have real production costs that are below the estimated average cost calculated using the formula.

Most likely, the most efficient producers would succeed in adjusting their costs, even if tariffication were to disturb the income stability they now have. Since production costs in the United States are approximately $10 to $15 lower than in Canada, there is also reason to believe that Canadian producers, already among the most efficient, would eventually become competitive.

In point of fact, eliminating import quotas and gradually lowering tariff equivalents would only speed up the rationalization of supply-managed industries. This process is already well underway in the dairy sector, which is experiencing an annual 5% decline in the number of producers. Over the next few years, this sector would have become more concentrated and its performance would have improved all on its own. Moreover, it would likely have proven to be as competitive as sectors in other producing countries.

The real challenge that the federal government and supply-managed producers will have to meet if tariffication is introduced will be putting a value on production quota values. Production quotas currently in circulation in Canada are estimated to be valued at about $6 billion. These assets, which have a strong tendency to appreciate, sometimes represent the bulk of a farm's assets, particularly in the case of off-soil production.

The value of production quotas will be an issue of prime importance since, in order to rationalize supply-managed production and make it more competitive, producers will have no choice but to cash in their quotas. If they fail to do so, it would be surprising if they were able to adjust to an unrestricted market.

b. Canada's Position

Right from the start of the MTNs, Canada tried to convince GATT and the other contracting parties of the validity of supply management. Mainly, it contended that this system does not create surpluses, one of the biggest sources of distortion in world trade.

However, GATT goes beyond the traditional debate pitting opponents of supply management against its defenders. While one may honestly believe that supply management does not put undue pressure on international trade, this is only because the supply management system, as a result of import quotas, is turned inward and, as such, is shielded from international market fluctuations. In this era of global markets, GATT perceives supply management as a closed circuit system, one that is protected by barriers (quotas) and supported by consumer transfers. In every sense, supply management goes against the premises of the Uruguay Round, whose whole purpose was to bring about gradual, substantial reductions in the level of agricultural support and protection.

In the circumstances, it is not surprising that Canada is having trouble conveying its message, particularly as it finds itself having to defend two diametrically opposed positions: calling for a more open market for western grain exports, while advocating protection for domestic markets in supply-managed eastern Canada. This approach, coupled with GATT's failure to understand supply management, has undoubtedly been responsible for Canada's loss of some credibility during the MTNs. Moreover, some GATT participants never miss the opportunity to point this out to Canadian negotiators.

2. Support for Canada's Position

While a few countries have adopted a form of supply management to control the production of certain commodities, Canada is the only country to have opted for an extremely rigid system that extends to a number of sectors.

When Canada called for Article XI to be strengthened and clarified in 1990, certain other countries were not pleased to note that the proposal contained a clause specifying countries that are net importers. Canada's initiative was an attempt to restrict the application of Article XI. However, Canada's allies who use Article XI are generally not net importers of

products to which they apply quotas and the Canadian approach would therefore have restricted their activities. Some of the support that Canada enjoyed began to weaken.

Other unexpected events related to the economic and political situation have affected the defence of supply management. Even though the U.S. does not favour this concept of production, it would not have opposed it so staunchly had it not been for the growing wave of anti-Japanese sentiment in the country. Therefore, the United States cannot afford to support its long-term allies since this would leave the door open to the Japanese who are seeking to protect their domestic rice market.

In view of its lack of real support, Canada is navigating in troubled waters in this round of bargaining. However, the same can be said of many other countries, who have no alternative but to await the outcome of the negotiations between the United States and the European Community and to comply with whatever decisions are made.

C. The Impact of the Dunkel Report on Grain Production in Western Canada

Western grain producers were receptive to the proposals in the Dunkel Report, in particular those calling for markets to be opened up and export subsidies to be reduced. These two measures bode well for the future of Western producers, who view them as a chance for prices to recover and for distortions in export market access to end. At the same time, however, one of Canada's oldest agricultural programs, the Crow Benefit, is threatened by some of the provisions in the Dunkel Report.

1. The Implications of the Dunkel Proposals for the Grain Market

According to the estimates of the Prairie Pools Inc. (PPI), the Dunkel proposals could lead to a 45% reduction in U.S. subsidized wheat exports from 1991 levels, whereas exports of subsidized barley could decline by 11%. European exports of subsidized wheat could also decrease by 45%.

On the basis of the Dunkel proposals, the PPI calculated that the Canadian Wheat Board could have increased its revenues by $320 million during the 1990-1991 grain year.

With respect to market access, Europe continues to be a major market for Canadian grains. Between 1988 and 1990, Canada shipped an average of 1.6 million tonnes of

grains and oilseeds annually to the European Community. According to the Dunkel proposals, the Community will have to open its market to approximately 700,000 tonnes of wheat and 800,000 tonnes of secondary grains. While access to these new markets will not necessarily translate into an equivalent increase in Canadian exports, it will enable Canada to compete on a more level playing field.

2. The Crow Benefit

The Dunkel Report has set its sights on the federal program for hauling grain to Western ports and to Churchill. GATT explicitly brands as an export subsidy any government policy favouring export shipments. These policies have become the target of reduction commitments:

> Internal transport and freight charges on export shipments, provided or mandated by governments, on terms more favourable than for domestic shipments.

This quotation from the Dunkel Report describes perfectly the *Western Grain Transportation Act*, the provisions of which amount to an export subsidy subject to a 36% reduction during the implementation period, 1993-1999.

In light of this fact, the PPI has devised a strategy that consists of applying the same tariff for grain shipments, regardless of whether they are destined for the export or domestic market. The Crow Benefit would therefore fall into the "amber" category, which means it would be subject to a 20% reduction, since the measure would then be considered as a domestic support measure.

This approach raises a number of questions. The real problem with the Crow Benefit is its visibility. A minor change will not be enough to convince Canada's trading partners that this subsidy is now geared to the domestic market. Everyone knows that domestic wheat consumption accounts for only 10% of the total annual production and that more than 80% of all grain produced in the West is exported.

Even though the Dunkel proposals do not require a *de facto* change in the Crow Benefit payment method (payments are currently made directly to the railway companies), the fact remains that the only approach acceptable to GATT would be to modify the payment method

so that it becomes decoupled. GATT recognizes the right to decoupled income support, that is, income payments totally independent of current production levels and types, or of the current year's prices.

The debate surrounding a decoupled payment method for the Crow Benefit is not new, but the issue has never before been championed so strongly, primarily because of the political problems facing both the federal government and the various agricultural groups defending the interests of Western grain producers. The fact remains that in its present form, the *Western Grain Transportation Act* does not meet GATT conditions.

3. The Canadian Wheat Board and Certain Domestic Support Programs

Although the Canadian Wheat Board (CWB) is not directly targeted by the Dunkel proposals, some of its operations could be affected.

The domestic support reductions set out in the Dunkel Report are based on an Aggregate Measure of Support (AMS) which takes into account overall domestic support expenditures. In other words, all agricultural expenditures in effect during the reference period (1986-1988) will have to be reduced in the aggregate by 20% between 1993 and 1999. This means that some programs may not be cut, while others may experience more drastic reductions to compensate for this. The majority of subsidies allocated to the grains sector between 1986 and 1988 under the Western Grain Stabilization Program, for example, or the Two-Price Wheat Program, no longer exist. Consequently, Canada enjoys some latitude to develop or improve certain domestic support programs. It is estimated that the domestic support budget for the grains sector will total between $1.5 and $1.7 billion in 1999.

However, if the CWB were to incur a deficit in its various accounts, as was the case in 1990-1991 when the deficit totalled more than $740 million, a move by the federal government to refund this deficit pursuant to its obligation under the *Canadian Wheat Board Act* would reduce in proportion expenditures for other agricultural support programs in Canada. This could prove to be a trying situation presenting devastating choices.

Finally, a number of other support programs might have to undergo structural changes. This is true of the Gross Revenue Insurance Plan, better known as GRIP. If the crop insurance component of this program is eliminated, it is not very likely that it would still be

considered a "green" program. In fact, current market prices for a given year are used for the purposes of calculating the target income under GRIP; this approach is prohibited by GATT on the grounds that it could influence future production levels or even production choices. However, the Net Income Stabilization Account, or NISA, which relies on historic production levels and which is aimed at stabilizing net income, rather than gross income which is directly tied to prices, is a form of decoupled income support that the Dunkel Report endorses, albeit with some restrictions.

D. The Revised and Corrected Dunkel Report

On 5 November 1992, when the United States threatened to impose a 200% tariff on European farm commodities (white wine, colza oil and wheat gluten), many observers felt that the Uruguay Round of negotiations had failed. On 20 November 1992, however, the European Community (EC) and the US reached an understanding that opened the way for a comprehensive GATT agreement.

The Dunkel Report, revised and corrected to suit both American and European interests (also known as the Blair House agreement) offers a little more flexibility to member countries, which will have to align their domestic agricultural policies with the comprehensive reform proposed by the GATT. Here are the main points of the agreement.

1. Reduction of Volume of Subsidized Exports

- The EC and the US agreed to reduce the volume of their subsidized exports by 21%. The 1991 Dunkel Report had proposed a reduction of 24%. The reference period on which calculation of the reduction is based, 1986-90, is unchanged from the initial proposal.

2. Reduction of Expenditures on Export Subsidies

- The EC and the US agreed to maintain the Dunkel proposal: a reduction of 36% based on the 1986-90 reference period.

It should be noted that export volumes and expenditures would have to be reduced by more than these nominal rates if export subsidies had increased considerably since the

1986-90 reference period on which the nominal reductions of 21 and 36% are based. In fact, both American and European subsidies have increased substantially since 1990.

3. Reduction of Domestic Support

- The EC and the US maintained the original proposal in the Dunkel Report: a reduction of 20% based on the Aggregate Measure of Support (AMS). The 1986-90 period will still be used as a basis for calculating the reduction of support; on the other hand, the 20% reduction may be applied to the entire agricultural sector rather than to individual commodities. By applying the reduction of domestic support to all farm commodities in the "amber" category, the participants are giving themselves greater flexibility to adjust their domestic policies in order to achieve the 20% reduction.
- In addition, the countries agreed to define a "blue" category of commodities that will not be subject to the 20% reduction of domestic support, but will still be subject to countervailing measures. The "green" category defined in the 1991 Dunkel Report remains unchanged.

The US states that it has already reduced its domestic support for farm commodities in the "amber" category by 20% and need therefore make no additional reductions to meet this GATT objective.

4. Access to Markets

- The EC and the US promised to comply as soon as possible with their lists of commitments to reduce certain tariffs and subsidies. There is, however, still a wide gap between some countries' lists of commitments and the requirements of the Dunkel Report. Lengthy negotiations on the contents of these lists of commitments must still be expected.

5. Compliance with GATT Regulations

- The EC and the US also agreed not to dispute export subsidies and domestic support measures that comply with the reduction commitments during the six-year implementation period. Retaliatory measures could, however, be taken if subsidized imports caused harm to domestic markets.

The 20 November agreement between the EC and the US also resulted in a major breakthrough in the thorny problem of EC oilseed production. Under the agreement, the EC would impose a limit of 5.128 million hectares on the area allocated to oilseed production. It is calculated that this year 5.128 million hectares would yield 9.7 million tonnes. If the allowed area were exceeded, EC oilseed producers would receive reduced subsidies for total seeded areas. This is considered a good enough incentive to discipline EC producers. It remains to be seen whether they will try to increase the yield of seeded areas. If the oilseed agreements are not respected, EC countries and the US will accept the decision of an arbitrator. Obviously, once the agreement was reached, the US withdrew its threat to impose a 200% tariff on some EC oilseed products.

Lastly, the agreement contains no specific provisions on Article XI, which permits the continuation of supply management systems. Canada still wishes to clarify and strengthen this Article, but the support it had from other countries has now almost completely disappeared. Canada is counting on the possibility of exceptions--as happened, for example, with the import of bananas into the EC--, but the possibility of this is not at all strong.

E. After the Uruguay Round Negotiations

On 15 December 1993, the representatives of the 125 countries participating in the Uruguay Round finally arrived at a new General Agreement on Tariffs and Trade (the 1994 GATT). The new Agreement is very close to the Dunkel Report of 20 November 1992 (the Blair House agreement). After submitting their tariff lists in February, the member countries finally signed the Uruguay Round Agreements on 15 April 1994, in Marrakesh, Morocco. The terms and conditions of the general Agreement will become a reality on 1 January 1995, when the World Trade Organization (WTO), the body that will supervise and coordinate it and all the other agreements reached during the Uruguay Round, begins its work, thus replacing the GATT.

For Canada, the 1994 GATT means that one of the main objectives it pursued throughout the negotiations -- maintenance of import quotas -- could not be achieved. Because import quotas are being replaced by tariffs (however high) and because there will be increased market access, all sectors now subject to supply management will experience the pressure of competition, which may well accelerate reform of the way in which they operate. To a lesser

extent, other agricultural sectors will also have to make certain adjustments, especially as regards domestic support and other forms of subsidy.

The tariff list that Canada had submitted in February, at the same time as the other member countries, was not contested. This means that the tariff equivalents and market access that Canada offered its trading partners are now completely valid under the rules of international trade.

The tariff equivalents, that is, the tariffs applicable over and above the tariff quotas guaranteeing minimum market access, are calculated in specific *ad valorem* terms that act as minimum levels. The tariff equivalents for Canada's main supply-managed agricultural commodities are as follows:

Tariff Equivalents				
	1995		2001	
Unprocessed milk	283.8%	$40.60/hl	241.2%	$34.50/hl
Skim milk powder	237.2%	$2.36/kg	201.6%	$2.01/kg
Butter	351.4%	$4.71/kg	298.2%	$4.00/kg
Cheddar cheese	289.0%	$4.15/kg	245.7%	$3.53/kg
Chicken	280.4%	$1.96/kg	238.3%	$1.67/kg
Turkey	182.1%	$2.30/kg	154.8%	$1.96/kg
Eggs	192.3%	$0.94/doz.	163.5%	$0.80/doz.

Several observers did not understand the methodology for calculating the 36% average reduction of tariff quotas that are subject to a minimum of 15% per tariff line. As the preceding table shows, tariff equivalents for supply-managed products will be subject to only the 15% minimum required reduction; some observers understood this to mean that other Canadian agricultural sectors would be subject to greater tariff reductions, in order to achieve the 36% average for agricultural products overall. That is not true. Since the GATT does not dictate how the 36% reduction is to be achieved, each country used different methodologies. Canada decided that the 36% target would affect each agricultural sector, for example, the dairy sector and the grain sector; but, even in using that approach, Canada allowed itself a great deal of methodological flexibility. Let us take butter as an example: Canada agreed to a 57% reduction of the tariff under the tariff quota, which would thus fall from $0.27 to $0.11 per kilo between

1995 and 2001; on the other hand, the tariff equivalents would be reduced by 15% in order to meet the GATT requirements. Since tariff reductions are calculated using unweighted averages, the combined 57% and 15% reductions will achieve the 36% target in Canada more than adequately. As a result, and contrary to what some observers initially believed, tariff reduction in Canada will not result in tradeoffs among the various agricultural sectors.

It should also be noted that, though the countries have agreed to open their markets by 3% for each commodity, depending on domestic consumption, and to extend that access to 5% by the year 2000, the methods of calculating are somewhat lax, so that access percentages often fall far short of expectations. Thus Canada made a commitment to granting access to its butter market equal to 2.4% of domestic consumption in 1995; this will rise to 4% by the year 2000. The US granted only 0.65% market access in 1995, which is to rise to no more than 1.1% by the year 2000. The most successful in limiting access, however, was the European Union, which, in a masterly stroke, had its trade partners agree to a market access of 0% in 1995 and only 0.8% by the year 2000.

But the end of the negotiations does not mean the end of trade disputes. Canada and the United States will also have to agree on the relationship between the North American Free Trade Agreement (NAFTA) and the 1994 GATT/WTO, and on more specific situations such as the importation of ice cream and yogurt, which was the subject of a GATT ruling in the fall of 1989. **Indeed, on 17 July 1995, the United States asked that a binational panel be set up to review the dispute between Canada and the United States on the imposition of tariff equivalents negotiated under the Uruguay Round Negotiations; these replaced import quotas on farm products, whether or not they were under supply management.**

The United States is convinced that NAFTA precludes the introduction of any new tariffs, while the Canadian government maintains that the GATT/WTO takes precedence over NAFTA. This is the first time that a binational panel has been set up under chapter 20 of NAFTA, which allows signatory governments to settle disputes on the interpretation of the Agreement. For Canada, both the economic and political stakes are high. If the United States won the dispute, the entire supply management system could collapse, possibly resulting in considerable costs and a split between the farm economies of eastern and western Canada. For the United States, the stakes are considerably lower. At

the United States would find itself in its present position, although, from an economic point of view, eliminating tariffs would open up to the United States the lucrative dairy product and farm product markets, in which that country already enjoys a competitively advantageous position.

The present situation for Canadian exporters of wheat to the United States is typical of trade relations between the two countries. Despite the agreements and the opening of borders, the United States is a past master at assigning blame to its trading partners when they manage to compete on the American market. The Americans play at protectionism as if it were chess: they move their pawns to distract their opponent, the better to penetrate his defences.

Finally, the new GATT rules, particularly the tariffs, will make agricultural policies more transparent. There could be unexpected repercussions. For example, an import quota is a somewhat abstract thing for the consumer, but a 300% tariff is not; it indicates very clearly the level of protection, and thus of the cost to the consumer, of certain agricultural products.

PARLIAMENTARY ACTION

The challenge of successfully completing the Uruguay Round was a daunting one, but it should not be surprising that the biggest challenge of all, that of adjusting each country's agricultural policies to the new GATT rules, remains to be met. Bill C-57, *An Act to implement the Agreement establishing the World Trade Organization* (WTO), was tabled in the House of Commons on 25 October and received Royal Assent on 15 December 1994. It amended or revoked several pieces of legislation affecting agriculture, particularly the *Canadian Wheat Board Act*, the *Export and Import Permits Act*, and the *Western Grain Transportation Act* (the *WGTA*). Although Bill C-57 substantially amended the *WGTA*, mainly by setting quantitative and monetary limits on the transport of grain to the port of Vancouver, still more extensive amendments will have to be made, as was pointed out by the Minister of Agriculture and Agri-Food, who stated, "My intention is to have *WGTA* reforms in place before the WTO's provision on export volume limits is reached" (Agriculture and Agri-Food Canada, Minister's Statement, 25 October 1994).

The reforms were not slow in coming: the Budget of 27 February 1995 made the Minister's plans a reality. The announcement that the federal government would no longer be subsidizing the carriage of grain by rail marked the end of one of the agricultural policies that had most influenced the development of Western Canada. Reform of the *WGTA* includes a $1.6-billion capital payment fund for owners of farmland and a $300-million transition fund, to be paid out over six years, to ease adjustment to a transportation system that is undergoing deregulation. In addition, the government will be offering new and supplementary loan guarantees, to a total value of $1 billion, for grain sales to non-government foreign buyers.

Bill C-76, An Act to implement certain provisions of the budget tabled in Parliament on February 27, 1995, contains the legislative provisions needed to launch the reform of grain transportation in the West.

Bill C-86, *An Act to amend the Canadian Dairy Commission Act*, is another parliamentary measure required under the Uruguay Round Negotiations. Formerly, dairy producers covered the costs of exporting dairy products. Those costs were funded by levies taken from producers' income. Under the new agreements such as the Uruguay Round Negotiations and NAFTA, those levies are considered export subsidies. Bill C-86 replaces the system of levies with a system of pooling milk income, which permits a different price for the volume of industrial milk destined for export. This means that prices paid for classes of milk for export will be market prices, not target prices calculated using the costs-of-production formula.

One subject that remains a potential source of friction is tariff quota administration, which will require, in particular, changes to the *Export and Import Permits Act* and the *Customs Tariff*. The terms and conditions of tariff quota administration will be the subject of consultations with the parties concerned, in order to ensure that market access meets WTO requirements. Tariff quotas have often been negotiated bilaterally, with the result that these bilateral arrangements were not included in the GATT lists, and their administration under the GATT or by the WTO cannot be required. For example, in 1995 Canada gave New Zealand access amounting to 1,200 tonnes of butter, out of a total quota of 1,964 tonnes; no specific explanation for this privilege was given. If changes to the legislation governing tariff quota

administration affect only the regulations, Parliament will not really have addressed one of the thorniest agricultural issues in the GATT/WTO agreement.

CHRONOLOGY

1986 - In September, the GATT conference in Punta del Este, Uruguay launched the eighth round of multilateral negotiations, henceforth to be known as the Uruguay Round.

1988 - In December, Montreal played host to a meeting of ministers of all GATT member countries. This mid-term review resulted in a total impasse between the United States and the European Community on the issue of subsidy reforms.

1989 - On 7 April, Arthur Dunkel, Director General of GATT, released his first report, which laid the foundations for reforming agricultural trade.

1990 - In October, Canada tabled definitive proposals concerning agricultural subsidies. It called for the clarification and strengthening of Article XI.

1991 - In December, the second edition of the Dunkel Report set out in further detail the procedure for achieving agricultural reform. The report made no mention at all of Article XI.

1992 - On 20 November, the revised and corrected Dunkel Report (the Blair House agreement) defined more precisely the terms and conditions sought by GATT for international trade. Article XI was, however, still not clarified.

1993 - On 15 December, the Uruguay Round negotiations ended without Canada's having been able to clarify and reinforce Article XI. Tariff lines will now replace the import quotas that used to be a control mechanism for Canada's supply-management system.

1994 - On 15 April, the member countries signed the Uruguay Round Agreements in Marrakesh, Morocco, thus creating the World Trade Organization (WTO), which would replace the GATT.

- Bill C-57, *An Act to implement the Agreement establishing the World Trade Organization*, received Royal Assent on 15 December.

1995 - In its budget of 27 February 1995, the government announced that it would end the *WGTA*.

- **On 22 June, Bill C-76 received Royal Assent. As a result, the *WGTA* was repealed on 1 August 1995.**

- **On 13 July, Bill C-86 received Royal Assent. The system of levies covering the costs of exporting dairy products was replaced by a system in which milk income is pooled.**

- **On 17 July the United States asked that a binational panel be set up under Chapter 20 of NAFTA to review tariff equivalents.**

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